

An apprenticeship committee organized primarily to establish standards of employment concerning apprentices in various skilled crafts, determine the qualifications necessary to become a journeyman, aid in adjusting and settling disputes between the employer and the apprentice, and also cooperate with the local board of education in establishing supplementary classroom instruction pertaining to the apprentice's vocation, is exempt from taxation as a labor organization under section 501(c)(5) of the Internal Revenue Code of 1954.

Advice has been requested whether a committee organized for the purpose of supervising the enforcement of apprenticeship standards in various skilled crafts is exempt from taxation under the provisions of section 501(c)(5) of the Internal Revenue Code of 1954.

An apprenticeship committee was organized for the purpose of establishing standards of employment concerning apprentices in various skilled crafts. The committee establishes standards as to the appropriate wages to be paid the apprentices, the amount of time to be spent under a journeyman in learning a particular phase of work, and the number of apprentices who shall be employed in a trade by an employer. The committee aids in adjusting and settling disputes between the employer and the apprentice. The committee also establishes or cooperates with local boards of education in establishing supplemental classroom instruction pertaining to the apprentice's vocation.

Committees of this type have been established pursuant to collective bargaining agreements or have been promoted by state encouragement of cooperation between employer and employee groups and are usually composed of an equal number of employer and employee representatives. They are organized in various forms, such as, corporations, associations, and trusts. Their operational expenses are met by various methods of financing, primarily by contributions from the employers and the labor union, although funds may be solicited from the public. These committees, whether established pursuant to state law or pursuant to a collective bargaining agreement, are the same.

Section 501(c)(5) of the Code provides for the exemption from income tax of labor, agricultural and horticultural organizations. Section 1.501(c)(5)-1 of the Income Tax Regulations provides in part, that the organization contemplated by section 501(c)(5) as entitled to exemption from income taxation are those which (1) have no net earnings inuring to the benefit of any member and (2) have as their objects the betterment of the conditions of those engaged in such pursuit and the improvement of the grade of their products and the development of a higher degree of efficiency in their respective occupations.

The problem in the instant case resolves itself into a consideration of the primary purpose of the committee as established. Its purpose appears to be an attempt to improve the lot of the apprentices by establishing standards as to wage requirements, improving working conditions, helping to settle disputes between apprentices and employers, establishing the number of apprentices which shall be employed in trade, and providing for on-the-job training with required supplemental education in the classroom.

It is apparent that the apprenticeship committee is not operated for the profit of any individual. It has educational aspects because of its close relationship to the education and training of the apprentice, but, since providing education is not its primary purpose or function, there is no apparent basis for exempting the committee as being organized and operated exclusively for educational purposes within the intendment of section 501(c)(3) of the Code. Its main purpose is the betterment of the conditions of those engaged in the trades governed and the development of a higher degree of efficiency in their respective occupations. As a result of these programs the products of the employer are improved in grade.

It is to be noted that since the membership of the apprenticeship committee consists of equal representation of employers and employees, such committee is not within the usual meaning of a 'labor organization.' Ordinarily, a 'labor organization' is composed of representatives of the employees in the form of collective bargaining agents and similar employee groups. However, the inclusion of such a committee in the term is warranted because of the fulfillment by the committee of the tests established for labor, agricultural and horticultural organizations and the further fact that the committee is similar in character to many of the organizations exempted from income taxation as agricultural or horticultural organizations under section 501(c)(5) of the Code. See, for example, Rev. Rul. 54-282, C.B. 1954-2, 126.

In view of the foregoing, it is held that since the primary objectives of the apprenticeship committee in the instant case is to establish standards of employment concerning apprentices in various skilled crafts, determine the qualifications necessary to become a journeyman, aid in adjusting and settling disputes between the employer and the apprentice, and also cooperate with the local board of education in establishing supplementary classroom instruction pertaining to the apprentice's vocation, such committee is exempt from taxation as a labor organization under section 501(c)(5) of the Internal Revenue Code of 1954.

An organization may not consider itself exempt from tax merely because it falls within the scope of this Revenue Ruling.

In order to establish its exemption, it is necessary that every organization claiming exemption under section 501(c)(5) of the Code file an application on Form 1024, Exemption Application,

with the District Director of Internal Revenue for the internal revenue district in which is located the principal place of business or principal office of the organization. See section 1.501(a)-1 of the Income Tax Regulations.